MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

DAU5024 – AUDITING 2

(All sections/Groups)

9 MARCH 2021
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 10 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1

H&H Design Berhad manufactures and sells modern style furniture across Malaysia. The company has manufacturing plants and warehouse located in Johor Bahru, but the main office and retail store are located in Petaling Jaya, Selangor. Since the past three years, the company recorded a slow progressing sales revenue. Based on previous year record, in the year 2019, 40% of the company's credit sales are either uncollectible or result in late collection. The Board of Directors instructed the management to review the company's internal control over the company's current sales procedures and marketing strategies.

As the company's internal auditor, your team is responsible for reviewing and identifying the issues, and the weaknesses arising from the internal control applied in the company's sales procedure. Below is the description of the sales procedure of H&H Design Berhad.

Sales Department

Customer can opt to place their orders through the company's website, telephone or walk-in orders. Any orders received by the company's website will automatically be checked through the company's inventory system. However, for a telephone order or walk-in order, Rosa, the sales person will manually check the products in the warehouse after she receives the order. If there is any product shortage in the warehouse, Rosa will make a follow-up call to the customers, and backorders will be initiated.

Most of the company's sales are on credit. Each time the company receives an order from a new customer, Rosa will check the customer's creditworthiness. She will suggest a credit limit which is then approved by her sales manager. For each successful sale, Rosa will receive 2% of the total sales as her commission.

Upon receiving a customer order, Rosa prepares three copies of the sales order form and one copy of the picking ticket. The picking ticket is sent to the warehouse. Rosa did not keep any copy of picking ticket in the sales department. A copy of the sales order form is forwarded to the shipping department. Another copy is forwarded to the billing department. The last copy is kept in the sales department for filing purpose. The sales order form and picking ticket are not sequentially pre-numbered.

All selling prices charged to the customer are based on a pricing list approved in the year 2017. Every year, the company often gives discounts to any customer who made a large order, especially during the festival month. To enable smooth dealings with the customers, Rosa was given the authority to provide sales discounts up to 15% to customers based on her personal preferences. She was also given the full access to amend the discount rate in the customer master file without her sales manager's approval. Next, Rosa will record the new price in the customer's sales order form.

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Shipping

Sam, the shipping staff, will receive the picking ticket and products from the warehouse. He will compare the products with the details on the sales order form and the picking ticket. Sam will sign and affix the stamp "Received" on the picking ticket as proof that the correct product is received from the warehouse before he packs the product accordingly.

Due to lack of space in the company building, the shipping department is located in the same area as the receiving department. The company places a computer terminal that is shared by both departments. The shipping staff and the receiving staff use the same username and password to access the company's operation system.

Before any delivery, Sam will prepare a sequentially pre-numbered delivery order form based on the details from the sales order form and picking ticket. Due to the tight delivery schedule, sometimes shipping staff did not request the customer to provide their signature on the delivery order form as proof that the customer has received the goods. Each customer will receive a copy of the delivery order form for their record. Another copy of the delivery order is sent to the billing department, and the third copy is kept in the shipping department for filing purpose.

During the peak delivery period, Ragu, the receiving staff, will help Sam prepare the delivery order form. Ragu’s assistance ensures an efficient process of delivery to the customer. The shipping department manages to maintain zero complaints from the customer on late or delayed delivery.

Billing Department

Taylor, the billing staff, will check the details on the sales order form and match it with the delivery order form's details. Next, Taylor will prepare two copies of the sales invoices. One copy of the sales invoice is sent to the customer, and another copy is kept in the billing department for filing purpose. Based on the company policy, the customer's monthly statement is prepared and sent only to customers with high outstanding balances at the end of the month.

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Required

(a) Identify and explain any **EIGHT (8)** weaknesses of internal control in the company's sales procedure. For each weakness, explain the potential risk that may happen in the company.

(Note: Use the table format below to write your answers)

No	Weaknesses	Explanation of risk
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		

(24 marks)

(b) List any **TWO (2)** important information recorded in a sales invoice. (1 mark)

(Total: 25 marks)

QUESTION 2

PART A

One of the important aspects of auditing sales revenue is to determine when the company is required to recognise its revenue. Based on Malaysian Financial Reporting Standard 118 (Revenue) MFRS 118, there are a few conditions to be met before sale of good shall be recognised.

Required

Describe each of the condition required by MFRS 118 (Revenue). (5 marks)

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PART B

Your audit firm has been assigned to conduct a financial statement audit for Rx-Fertiliser Trading Berhad for the year ended 31 December 2019. The company has been trading for more than 5 years. The company has three main product lines; Fertiliser 1, Fertiliser 2 and Fertiliser 3.

Your audit senior is currently preparing an audit plan, focusing on the three categories of the substantive test as shown in **Figure 1**.

- Substantive Analytical Procedure
- Substantive Test of Transaction
- Substantive Test of Account Balance

Figure 1

You have obtained sales information from the company and summarised it in the following document. This document is vital during audit planning.

	Year Ended 31/12/2019 RM	**Year Ended 31/12/2018 RM**	**Year Ended 31/12/2017 RM**
Sales			
Fertiliser 1	2,561,000	2,343,000	2,054,000
Fertiliser 2	1,430,000	1,276,000	1,183,000
Fertiliser 3	346,000	298,000	124,000
Sales Return			
Fertiliser 1	56,000	49,000	55,000
Fertiliser 2	27,000	23,000	19,000
Fertiliser 3	23,000	18,000	11,000
Cost of Good Sold			
Fertiliser 1	1,436,000	1,420,000	1,352,000
Fertiliser 2	765,000	120,000	90,000
Fertiliser 3	125,000	104,000	76,000

Figure 2

Continued…

Required

(a) Differentiate each of the category of the substantive test in **Figure 1.** (6 marks)

(b) Based on **Figure 1**, which type of test is the least expensive and least time consuming to be performed? (2 marks)

(c) Based on the document shown in **Figure 2**, which type of test would you use to analyse the data? (2 marks)

PART C

Your audit firm has been appointed as auditors for Sunny Supplies Berhad (SSB) for the year ended 31 December 2019. SSB is a merchandising company that sells various types of home supplies to retailers around Malaysia. Your audit senior requires you to perform sales cut-off test for the company. **Figure 3** below shows the list of sales transactions recorded in the sales journal for SSB for December 2019 and January 2020.

Sales Journal - December 2019

Transaction	Sales Invoice Date	Sales Invoice Amount (RM)	Shipping Date
A.	21.12.2019	11,500	28.12.2019
B.	30.12.2019	23,000	30.12.2019
C.	31.12.2019	44,800	02.01.2020
D.	31.12.2019	25,200	31.12.2019
E.	31.12.2019	17,800	01.01.2020

Continued…

Sales Journal - January 2020			
Transaction	**Sales Invoice Date**	**Sales Invoice Amount (RM)**	**Shipping Date**
F.	31.12.2019	16,400	01.01.2020
G.	01.01.2020	33,000	31.12.2019
H.	01.01.2020	24,900	30.12.2019
I.	02.01.2020	14,900	02.01.2020
J.	02.01.2020	41,000	01.01.2020

Figure 3

Required

(a) Identify which transactions are **NOT** correctly recorded by the company. (2 marks)

(b) Explain your reason for your answer in (a). (2 marks)

(c) Describe the audit procedure you will conduct to perform sales cut-off test. (4 marks)

(d) Explain the audit procedure you will conduct to examine the **EXISTENCE** of Transaction C recorded in the sales journal. (2 marks)

(Total: 25 marks)

Continued…

QUESTION 3

PART A

Darello Plastech Berhad is a medium-size manufacturing company that manufactures and sells plastic packaging and product. The company purchases its raw materials such as polypropylene and polyethylene resins from local suppliers in Malaysia. The company adopts seven main internal functions in their purchasing process and uses different types of documents to enhance the effectiveness and efficiency of the purchasing process with the suppliers. The company also uses voucher packages in their purchasing process. **Figure 4** below shows the sequence of the functions.

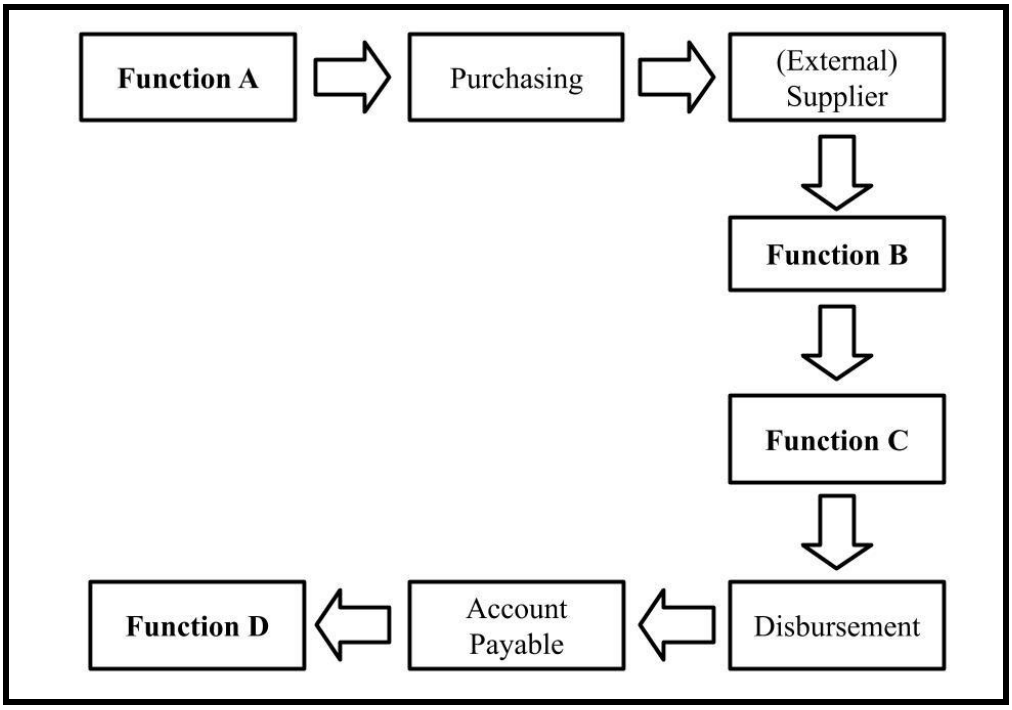

Figure 4

Required

(a) Explain the purpose of **Function A**, **Function B**, **Function C**, and **Function D** as stated in **Figure 4**. (8 marks)

(b) In which function the company will prepare its voucher package? (1 mark)

(c) Identify and explain any **TWO (2)** important documents involved in **Function C**. (6 marks)

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PART B

(a) You are currently in charge of auditing Paper Value Berhad's property, plant and equipment (PPE) for the year ended 31 March 2020. During the audit, you discovered that the company maintains a proper record of PPE. Any purchases or disposal of PPE worth more than RM 30,000 were authorised by the Board of Directors. Based on the company's records, you found that the company purchased two manufacturing machines in June 2019 and disposed off one manufacturing machines in October 2019.

Required

Describe the audit procedures that you will perform to examine all purchases and disposals of the company's Property, Plant and Equipment (PPE) during the year.

(Note: Use the table format below to write your answer)

Audit Objective	Audit Procedures
i. Existence of purchases	
ii. Existence of disposal	

(4 marks)

(b) State the test of control you will perform to examine the **EXISTENCE** of authorisation on purchases and disposals of PPE in the company.

(2 marks)

PART C

The audit procedures to verify accrued salaries and wages account are depending on the level of control risk and the amount of the account balance.

Required

(a) Suggest **ONE (1)** analytical procedure an auditor may use to examine the fairness of accrued salaries and wages account balance. (2 marks)

(b) Explain the audit procedure an auditor may apply to verify the **EXISTENCE** of accrued salaries and wages account. (2 marks)

(Total: 25 marks)

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QUESTION 4

PART A

Sara is the external auditor of D-Drink Industries Berhad, a beverage manufacturing company. She plans to perform substantive audit procedures on D-Drink's account payable balances. Sara had performed the test of control over the company's account payable and assessed a low level of control risk. Sara requested several documents from the Finance Manager. The documents she received are the company's account payable general ledger, the listing of account payable, the voucher packages, and the supplier's monthly statement.

Required

(a) Identify **FIVE (5)** audit procedures Sara may use to test the company's internal control related to the account payable. (5 marks)

(b) What does "**assessed a low level of control risk**" mean? (2 marks)

(c) State any **ONE (1)** substantive analytical procedures that Sara may perform to verify the account payable balance. (2 marks)

(d) State the substantive test of account balances Sara may perform to achieve the following audit objective.

(Note: Use the table format below to write your answer)

Audit Objective	Substantive test of account balances
i. Existence of account payable	
ii. Completeness of account payable	
iii. Right and obligation of account payable	

(6 marks)

Continued…

PART B

An auditor needs to understand the client's capital acquisition and repayment cycle as it is the primary source of financing for most companies. The choice of loans payable or owner's equity as sources of capital depends on the type of business the company operates. There are four characteristics of capital acquisition and repayment cycle that affect the audit of loans payable or owner's equity account.

Required

(a) State any **THREE (3)** characteristics of capital acquisition and repayment cycle. (6 marks)

(b) Describe **TWO (2)** audit procedures an auditor may perform to examine the **EXISTENCE** of loans payable. (4 marks)

(Total: 25 marks)

End of Paper